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BDI- 01832/85

5 APR 1985

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MEMORANDUM FOR: Robert M. Gates
Deputy Director for Intelligence

FROM: Douglas J. MacEachin
Director of Soviet Analysis

SUBJECT: Report on the Comparison of DIA and CIA Estimates
of Soviet Military Production

REFERENCES: (A) Memo for DDI, dtd 12 March 1985, Request for Review
of Weapons Production Data

(B) Memo for Director, DIA, dtd 22 March 1985, Status Report
on Comparison of DIA and CIA Estimates of Soviet Military
Production being prepared on the JEC

Background

1. Three weeks ago, General Williams requested us to review a set of tables DIA has prepared for the JEC which provide a listing of the procurement quantity differences in DIA's and CIA's estimates of major Soviet weapon systems (the referenced memos are at Attachment 1). We have completed the requested review and have gone a step further by comparing DIA's estimates of the dollar procurement costs of these weapons with our own estimates. We did this because the JEC's request was likely generated by the markedly different assessments of growth in Soviet procurement for 1983 that our two Agencies have presented.

Results

2. This is the first opportunity we have had to examine in depth DIA's production numbers and the value series associated with them. Our examination has led us to the following conclusions:

- a. With respect to our production estimates, there are differences in almost every weapons program. These differences are largest in the land arms category.
- b. Because we have until recently lacked DIA's data base, we had accepted their explanation that the differences between our two value series was driven primarily by differences in the quantities of weapons produced. This characterization, however, is wrong. Other factors have a significant impact on the levels of dollar costs as well as their growth rates from year to year. These factors include:

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SUBJECT: Report on the Comparison of DIA and CIA Estimates of Soviet Military Production

- DIA's use of different approaches to unit prices and the phasing of ship costs.
- DIA's reliance on a sample of weapons which is a bad predictor of total procurement growth.

These issues are fully explained in the attached memorandum from you to General Williams.

Recommendations

3. On the basis of these findings, I recommend:
 - a. That you send the attached memorandum and supporting annexes (Attachment 2) to General Williams.
 - b. That our Agencies convene as quickly as possible a working group to narrow the differences in the land arms category and produce a set of tables comparing CIA and DIA production estimates which can be sent to the JEC.



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Douglas J. MacEachin

Attachment:
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**SUBJECT: Report on the Comparison of DIA and CIA Estimates of
Soviet Military Production**

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DEFENSE INTELLIGENCE AGENCY
 WASHINGTON, D.C. 20301 -6111

DDI- 01467-85

S-46,053/DB-4

12 MAR 1985

MEMORANDUM FOR THE DEPUTY DIRECTOR FOR INTELLIGENCE, CIA

SUBJECT: Request for Review of Weapons Production Data

1. During the Defense Intelligence Agency's (DIA) testimony to Congress' Joint Economic Committee (JEC) last month, Senator Proxmire asked us to provide a breakdown of the procurement quantity differences in DIA's and CIA's estimates of major Soviet weapon systems.
2. In order to accomplish this comparison as expeditiously as possible, we have utilized the most recently available CIA data, provided to us by the Office of Soviet Analysis (SOVA) in December, 1984. However, to assure that the most current and accurate data are given to Congress, we are asking that you review, and update or correct where necessary, all the CIA data contained in this comparison (enclosure 1). In order to provide a framework for this comparison, we have identified each of the major weapon systems as either "old" or "new." While this categorization is somewhat arbitrary--and your views on this are most welcome--we believe that the results will give a more accurate picture of the recent trends in weapons procurement quantities. The pattern suggests that the newer, and more capable, weapons are not necessarily replacing older weapons on a one-for-one basis, a point which would not necessarily be reflected by a simple quantitative system-by-system listing. Rather than provide highly detailed comparisons, we will be presenting the DIA and CIA data in the format shown in Enclosure 2.
3. Inasmuch as our completion of the editing of the JEC transcript and its return to the Committee awaits your review of the enclosed materials, we would appreciate your response to this request by 21 March 1985. We have already provided a working copy of these materials to SOVA some three weeks ago, to assure your analysts as much time as possible both to review the CIA numbers and to examine the detailed DIA preliminary production estimates.
4. Much more detailed information on the two agencies' military production estimates will, at least tentatively, be available around the end of the calendar year (based on the recent National Foreign Intelligence Board discussion of CIA's recommendation of a joint paper). However, we prefer to be responsive to Senator Proxmire's request by providing him and the Committee the aggregated data in the format reflected in Enclosure 2. Should the Senator have any further questions concerning production, he can be referred to the forthcoming joint paper.

James A. Williams

JAMES A. WILLIAMS
 Lieutenant General, U. S. Army
 Director

2 Enclosures

1. Detailed Procurement Report, (S) 1 Cy
2. Summary of Procurement Report, (S) 1 Cy

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Central Intelligence Agency



Washington, D. C. 20505

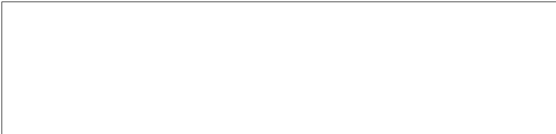
22 MAR 1985

MEMORANDUM FOR: Lt. Gen. James A. Williams, USA
Director, Defense Intelligence Agency

SUBJECT: Status Report on the Comparison of DIA and CIA
Estimates of Soviet Military Production Being
Prepared for the JEC

1. Thanks for your letter of 12 March concerning the Soviet military production comparisons. The responsible DIA and CIA offices have exchanged production estimates and the dollar cost procurement series associated with them. The production comparisons are virtually complete. Much progress also has been made in comparing the two series on value of procurement. We must examine these latter data with some care because DIA's prices differ somewhat from those developed by CIA. We must determine what impact, if any, these price differences have on the markedly different assessments of growth in Soviet procurement that our two Agencies have presented.

2. Several differences have been identified in the production estimates. We are, jointly with DIA analysts, trying to eliminate differences where possible. Clearly the report to the JEC will show differing assessments. I believe, however, it is in the community's interest to be sure they are real and that both agencies understand the basis for them. We believe we can complete this work (including consultations with your analysts) by 29 March.


Robert M. Gates
Deputy Director for Intelligence

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Washington, D. C. 20505

8 APR 1985

MEMORANDUM FOR: Lt. Gen. James A. Williams, USA
Director, Defense Intelligence Agency

SUBJECT: Report on the Comparison of DIA and CIA Estimates of Soviet
Military Production Being Prepared for the JEC

1. We have completed our review of your Agency's estimates of Soviet military production and procurement. Our review focused on the following two issues:

- Comparing DIA's production estimates of selected Soviet weapon systems with our own and identifying the major areas of difference.
- Comparing DIA's estimates of the dollar procurement costs of these weapons with our own and specifying the reasons for the differences between them. (C)

2. We address the latter point because the JEC's request has most likely been generated by the markedly different assessments of growth in Soviet procurement for 1983 that our two Agencies have presented. Underlying this request is the JEC's assumption, based on statements we have jointly made, that the differences between our estimates are attributable primarily to differences over physical quantities and not to differing prices or methodologies. As you will see, however, this has not proven to be an accurate description of why our estimates differ. (C)

3. In our review of your tabular data comparing DIA and CIA production estimates by individual weapon system, we found no major errors in the presentation of CIA data. Any minor errors have been corrected in the tables attached at Tab B. We think the categorization of weapons as either "old" or "new" requires a certain degree of arbitrariness that can be avoided by arraying tabular data on a program-by-program basis, and would prefer that data released to Congress be done in this format. (C)

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4. As you will see from these tables, there are differences in production estimates for almost every weapons program. These differences are largest in the land arms category. I expect the scheduled IIM on military production to help resolve some of the key quantitative and methodological issues between our Agencies and develop new, improved methods for estimating production. (C)

5. Our analysis of the two procurement series indicates that the differences between CIA and DIA estimates expressed in dollar terms are not attributable solely to differences in production estimates. Differences over quantities produced are only part of the story. Other factors--such as DIA's use of different approaches to unit prices, and of a different time phasing of ship costs--have a significant impact on the growth rates from year to year. Finally, there is the issue of growth in total weapons procurement, and whether the DIA sample is a good predictor of the total. Our assessment is that it is not. The results of our analysis on this issue follow below. (C)

6. To illustrate the impact of the above factors on our dollar cost estimates, I have attached six charts at Tab A.



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Military Production Being Prepared for the JEC**

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7. Before you respond to the Joint Economic Committee, I would recommend that analysts from our two Agencies attempt to narrow some of the large differences in our production estimates, particularly in the land arms category. This exercise should be facilitated by the fact that our two

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Agencies now share an agreed data base for Ground Forces units. I also recommend that you inform Congress that the forthcoming IIM on Soviet military production will focus on the several differences we have identified in our production estimates, and that they understand that the differences between the CIA and DIA dollar estimates of Soviet defense activities are not attributable solely to differences in our estimates of the quantities produced. As our analysis indicates, other factors--such as different prices and the time phasing of costs--play a significant role. It also indicates how sensitive year to year assessments are to price and quantity adjustments, and argues that assessments for longer periods of time rather than a single year are the most appropriate. (C)

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Robert M. Gates
Deputy Director for Intelligence

Attachments:
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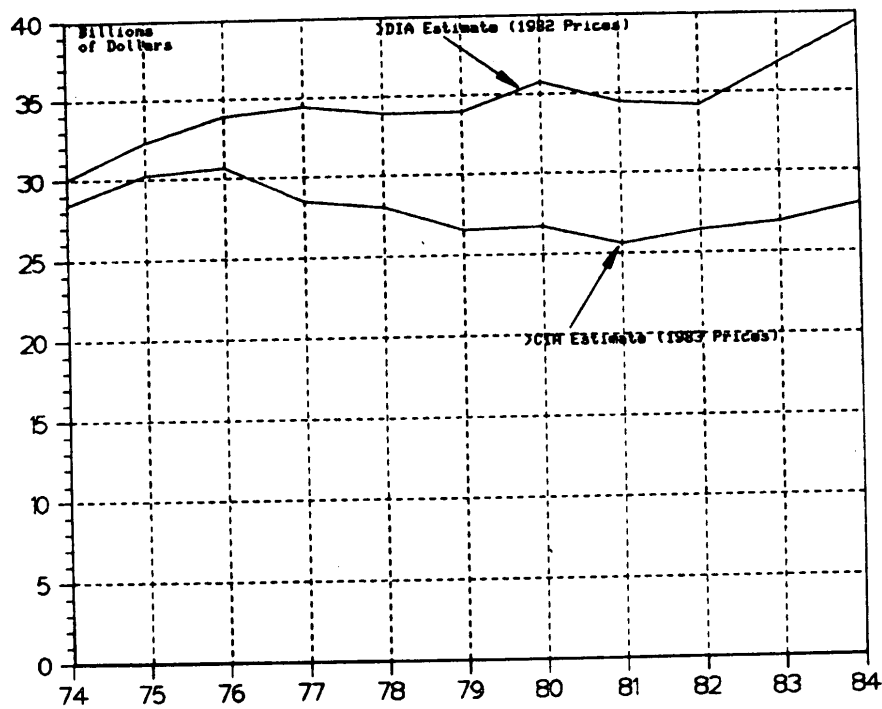
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Figure 1

Dollar Procurement Costs for the Soviet Weapons Programs in the DIA
Sample Estimate vs CIA Costs for the Same Weapons Programs



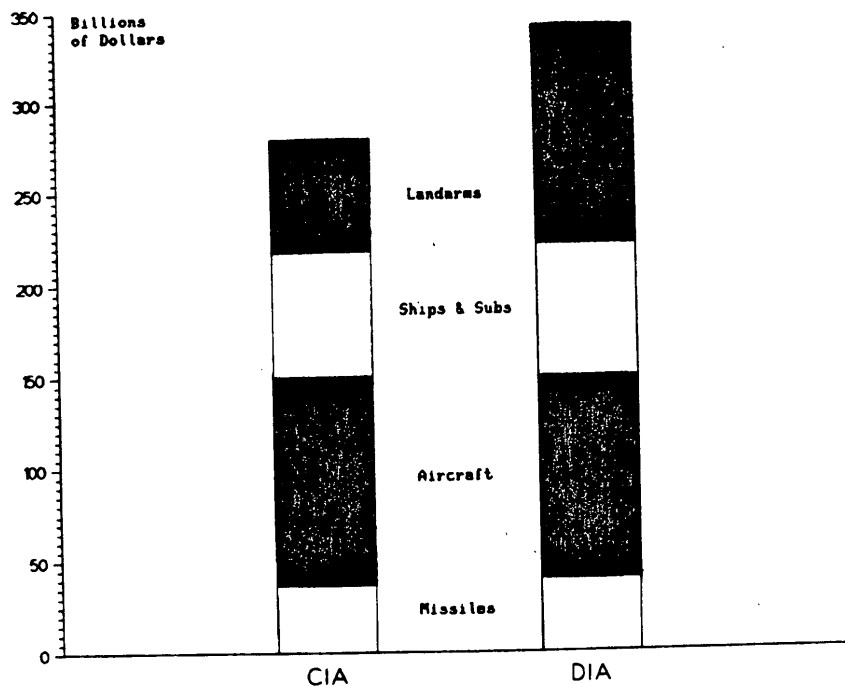
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Figure 2

Dollar Cost of Cumulative Soviet Military Procurement, 1974-83
DIA Sample Estimate Compared with CIA Costs for the Same Weapons Programs

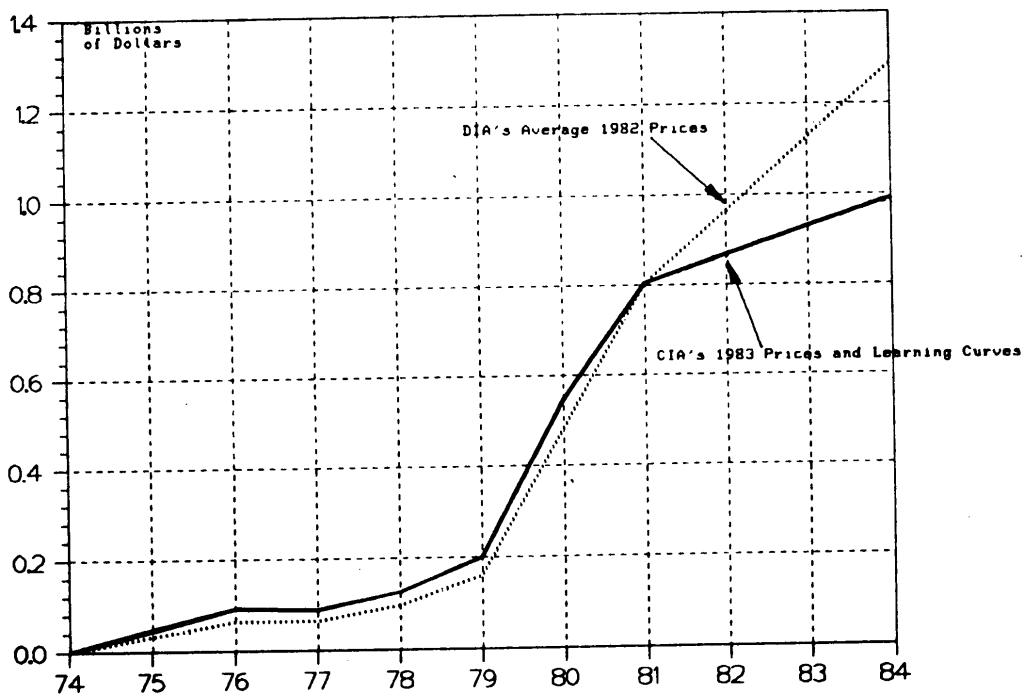


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Figure 3

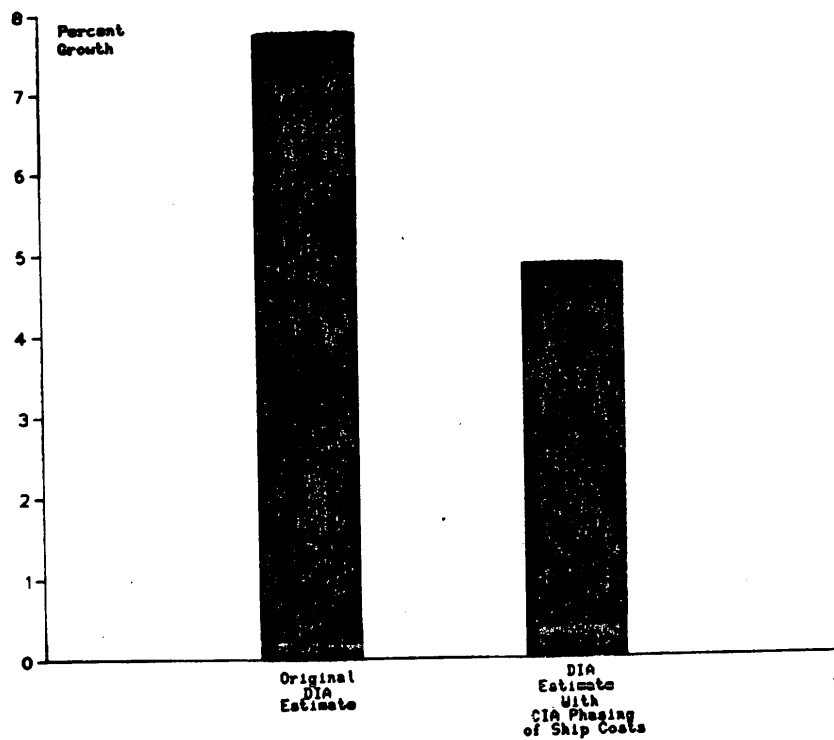
Impact of DIA Average Price on Annual Foxhound Procurement



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Figure 4

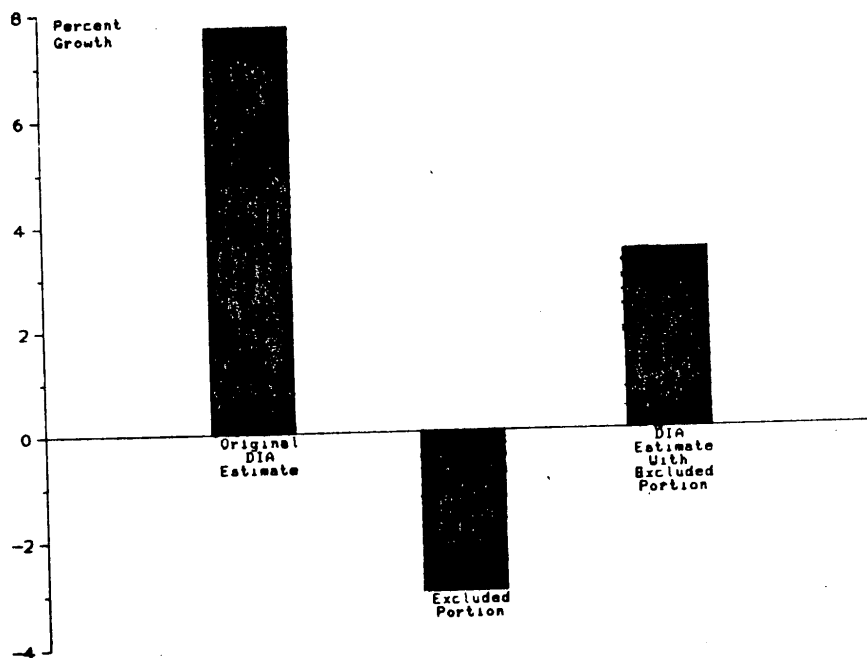
Impact of CIA Phasing of DIA Ship Costs on Procurement Growth
in 1983



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Figure 5

Impact of the Portion of Procurement Not Included in the DIA Sample
Estimate on Cost Growth in 1983



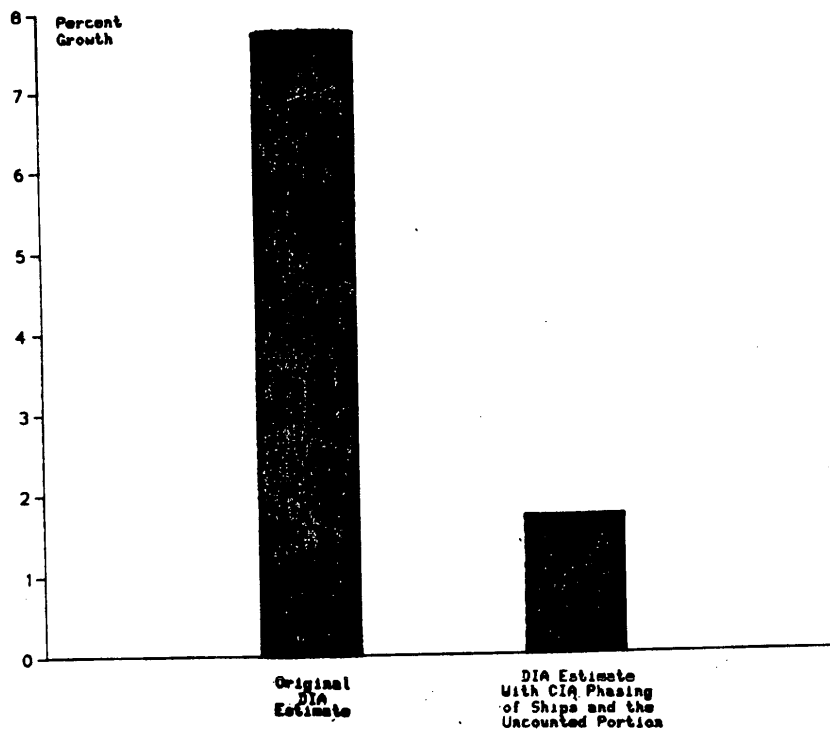
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Figure 6

Impact of Excluded Procurement and CIA Ship Phasing on DIA
Estimate of Cost Growth in 1983



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